

**CONSUMER PROTECTION and GOVERNMENT OPERATIONS
of the
SUFFOLK COUNTY LEGISLATURE**

Minutes

A regular meeting of the Consumer Protection and Government Operation Committee of the Suffolk County Legislature was held in the Rose Y. Caracappa Legislative Auditorium of the William H. Rogers Legislature Building, Veterans Memorial Highway, Smithtown, New York, on Thursday, **July 31, 2003.**

MEMBERS PRESENT:

Legislator Cameron Alden - Chairman
Legislator William Lindsay - Vice-Chair
Legislator Lynne Nowick
Legislator Angie Carpenter

ALSO PRESENT:

Ed Hogan - Aide to Legislator Nowick
Warren Green - Aide to Legislator Alden
Meghan O'Reilly - Aide to Presiding Officer Postal
Charles Gardner - Director of Consumer Affairs
Alexandra Sullivan - Chief Deputy Clerk of the Legislature
Joe Muncey - BRO
David Manning - KeySpan
Vinny Frigeria - KeySpan
Tom DeJesu - KeySpan

MINUTES TAKEN BY:

Donna Catalano - Court Stenographer

(*THE MEETING WAS CALLED TO ORDER AT 9:40 A.M.*)

CHAIRMAN ALDEN:

Good morning, and welcome to the Consumer Protection Committee Meeting. And we will have the Pledge, and we will have Legislator Angie Carpenter to lead us in the Pledge.

SALUTATION

CHAIRMAN ALDEN:

Thank you. Charlie, if you can come up for a minute. If there's any kind of an update that we need or any questions, we'll get that out of the way first.

DIRECTOR GARDNER:

There are no -- we haven't done any surveys, either oil or gasoline since the last meeting. But just by our own observances, everything is quiet and stable. There are no fluctuations one way or another.

CHAIRMAN ALDEN:

We run sting operations on gasoline stations and things like that? I know Legislator Nowick had put some legislation in recently.

DIRECTOR GARDNER:

Yes, we do. We haven't in the recent past, none -- no specially targeted operations this year. We just, I'm sure you realize, concluded a major one with home improvement contractors. That was a six week operation. We worked with the District Attorney's Office and the Police. It was one of the more successful operations that we have run, in that it really targeted the worse offenders including the -- our ten worst contractors, that was legislation that was passed last year. On the website, we targeted those as well as others that we had prior problems with, and for which warrants had been issued and they had ignored the courts as well as Consume Affairs. But it was a very good operation.

CHAIRMAN ALDEN:

How's our reimbursement fund doing?

DIRECTOR GARDNER:

The restitution fund?

CHAIRMAN ALDEN:

Yes.

DIRECTOR GARDNER:

It's very well. It has -- since we raised the fees almost three years ago now, the fund has maintained -- we've been averaging about a \$120,000 in the balance. We have dipped as low as about \$80,000 since we went for the increase in the fees. But since then, we have stabilized, and it's very healthy. Also, besides raising the fees, I have to say that we have also strengthened the process of background checks, especially for those new applicants, because probably 60% of the contractors who cause us to go to the restitution fund have been licensed for less than two years. So I think the combination -- naturally raising the fees helped, but then also increasing the

background checks on these new applicants. That's gone a long way towards maintaining that healthy reserve.

CHAIRMAN ALDEN:

So the fees come from an initial applicant or somebody getting a renewal.

DIRECTOR GARDNER:

One hundred dollars, every new -- every new license, every new home improvement license there's a \$100 fee.

CHAIRMAN ALDEN:

Now, when we do a civil action against somebody that, you know, is doing home improvements without a license or anything like that, where does that money end up going?

DIRECTOR GARDNER:

That goes into the General Fund. The only funds that go into that is the \$100 per application.

CHAIRMAN ALDEN:

Now, where I'm going with this is do you see any benefit in us maybe doing a civil action, an additional civil action that would, you know -- in addition to them paying a fine that would go into the General Fund, maybe a surcharge or something like that that would go to this restitution fund. Because that's where people actually get hurt the worst, right? Or actually come to your office for help and we really can't help them, right unless they've been stung by a licensed contractor?

DIRECTOR GARDNER:

That's correct. Remember, the restitution fund, the key part of that is that the contract had to have been signed with a contractor who was licensed at the time of the signing. Anybody that does work with an unlicensed contractor cannot access the restitution fund.

CHAIRMAN ALDEN:

I'm almost thinking along the lines of, you know, like a second type of fund. But you know, that's something we can pursue. Legislator Nowick.

LEG. NOWICK:

Yeah. Charlie, good morning.

DIRECTOR GARDNER:

Good morning.

LEG. NOWICK:

The website we have for the ten worst offenders, am I correct in saying that a lot more than ten on there now in a lot of different categories?

CHAIRMAN ALDEN:

It's a dynamic list. At times we've been -- we've had as many as 25. I think right now we have 15 on there. So, yeah, we take -- we're very liberal with the use of, I guess, editorial privilege, if you

3

want to call it. It is more than ten and has been more than ten. Naturally, the ten quote unquote are the first ten, but there are --

LEG. NOWICK:

Do you do those in categories at all?

DIRECTOR GARDNER:

Not in categories, no. There are -- just the -- probably once a week or so we look at. For instance, one contractor that was on the list since it inception was removed recently because he was convicted and sentenced to --

LEG. NOWICK:

The guy from the appliance store.

DIRECTOR GARDNER:

No, not him. He is still number one, two and three, by the way. But this contractor was sentenced four to 12 years in prison.

LEG. NOWICK:

Now, we're feeding him, right?

DIRECTOR GARDNER:

For a while at least, the consumers don't have to worry about him. But it is a dynamic in that if we get complaints or have reason to believe there's an unlicensed contractor operating, that person will be added to the list. The purpose of the list is that people we feel are A) not licensed at all and continuing to work, and it's that continuing to work. We want to advise as many consumers as possible, stay away from these people, don't do business with these people contractors. So it changes based on, you know, the number of complaints and the types of complaints that we have. We might hold a hearing with an unlicensed contractor, he agrees to pay a penalty, he

agrees to come in and get a license, he agrees to make restitution to two or three consumers, let's say. And a couple of weeks go by, and guess what? He hasn't paid the penalty, he hasn't come in to get the license and he hasn't made the restitution. Bingo, he's probably going to be on the list the next day. That's how it work. So it is dynamic, it does change as the times dictate.

LEG. NOWICK:

Just one more question, it has nothing to do with that. The supermarkets that have every item with a price. Who's the worst offender, what supermarket is the worst offender.

DIRECTOR GARDNER:

Waldbaums. It's a matter of record.

LEG. NOWICK:

That's just the supermarkets. We haven't yet gotten into the stores such as the K-Marts and WalMarts and --

DIRECTOR GARDNER:

Oh, sure. Oh, yeah.

LEG. NOWICK:

But everything or just the grocery products?

DIRECTOR GARDNER:

Just the -- remember, there are four groups of products; food products, health and beauty aides, detergents and soaps and paper goods and paper products. It doesn't matter what type of store, the legislation addresses those four groups of commodities.

LEG. NOWICK:

Food, beauty --

DIRECTOR GARDNER:

Food, health and beauty detergents and laundry soaps and paper good paper products and wraps, saran wraps, aluminum foil.

LEG. NOWICK:

What is their fine if you fine them without?

DIRECTOR GARDNER:

The maximum per store inspection right now is \$2000, and most of Waldbaums' penalties lately have been \$2000.

LEG. NOWICK:

I can make you a lot of money, send me out.

DIRECTOR GARDNER:

We can always use that.

LEG. NOWICK:

Thank you.

DIRECTOR GARDNER:

But, yes, WalMart K-Mart, Target, Genovese, CVS, Duane Reed, etcetera, etcetera, etcetera, yes, those stores are also included in those types of inspections. I would just like to point out one more thing about that list. You know, two of the people -- two of the 25 arrests that were made in that recent sting house came about because of the list, the website list. Those names were pulled down by officers from the Sixth Precinct and the Fourth Precinct. And they happened to realize that the people they were working -- looking at were also on our list. So the Police Department at the precinct level is aware of that list, and two of those 25 arrests were made by the police officers.

LEG. NOWICK:

That's from the legislation with the worst offenders?

DIRECTOR GARDNER:

That's correct.

LEG. NOWICK:

Oh, that's great.

CHAIRMAN ALDEN:

Legislator Carpenter.

LEG. CARPENTER:

I know I had just called Cameron last week about it, you might not of had a chance to act on it, there was a situation a vendor charging sales tax on bottled water.

DIRECTOR GARDNER:

Yes. We checked with the DEC on that. And there is -- it's one of

those -- kind of like, you know, marshmallows. You know, big marshmallows are taxed and little marshmallows aren't taxed even though they're really the same thing. But big marshmallows are taxed because they are considered candy, little marshmallows are not taxed because they're considered a baking addition. Water, if it's just water, it's not taxed. If it's mineral water or bubbly, if it has been carbonated, is taxed. That's the -- that's straight from the DEC. Because that's -- those are the people that enforce that law. The bottle -- they have a division right over in Stony Brook. So it's kind -- you know, it depends on the product. But in general, just plain old bottled water is not supposed to be taxed, mineral water or bubbly, you know, like Evian or something like that.

LEG. CARPENTER:

So you just reported it to the DEC, it has nothing to do with Consumer Affairs then? You don't enforce that?

DIRECTOR GARDNER:

They have jurisdiction on that, right.

LEG. CARPENTER:

And do they enforce something like that? I mean, if someone is charging -- you know an 18 bottle pack of water, times five cents a bottle.

DIRECTOR GARDNER:

Yeah, they have field people who go out and will issue violations for that, yes. So we work with them. We get maybe once a month, maybe ten complaints a year about that. And, you know, we have direct contact with DEC. They make -- for instance, when we get complaints like -- I bring the marshmallows up because we didn't realize that there was that type of distinction. If you look at the list of -- list of commodities that are taxed and aren't, you almost need to have a PhD to figure it out -- juices for instance. You know, if it's -- depends on whether it's less than ten percent or more than ten percent of real juice. So we let those people doing the actual enforcement of complaints that we get.

CHAIRMAN ALDEN:

I'm not sure then how specific I was when I contacted your office. Legislator Carpenter indicated to me that there's a chain of stores that actually taxes stuff like Poland Springs. Did you pass that on?

DIRECTOR GARDNER:

Yes, we did.

CHAIRMAN ALDEN:

Okay. The specific chain and everything?

DIRECTOR GARDNER:

Yes, we did.

CHAIRMAN ALDEN:

Oh, good. Thanks. Okay.

LEG. CARPENTER:

And it wasn't a discretionary, you know, action by the part of the cashier. This had been programmed into the computer.

DIRECTOR GARDNER:

Right. Right.

CHAIRMAN ALDEN:

Thank you. How's everything going with the uniform licensing fees? We have Legislator Lindsay to thank for that.

DIRECTOR GARDNER:

It's just one of those things that as soon as it went into effect, it made a difference right away. Things are much smoother. We even found, you know, the new clerk typist that was added to the certification unit. It just made it that much easier, you know, in explaining how things work. We didn't have to have 14 different exceptions and but for this and except that. It's all the same, and it just helps the work flow immensely.

CHAIRMAN ALDEN:

That's good. Any other questions? Thanks, Charlie. We will let you get back to work. Thanks a lot for coming down. We also have Mr. Manning with us from KeySpan. It was nice of them to take off some time. Come on up. As they are coming up, for a little background, we had Kevin Rooney at one of our last meetings. Mr. Rooney from the Oil Heat Institute had mentioned that in the middle of the winter time when we can least afford to have it happen, we have some of these big users, I guess, they get kicked off the gas line and they end up using oil. So he indicate that there's a possibility that that could cause a dry up almost of supply or a spike even in the price. So if we could get a little bit of background from your side of it, whether it is a major problem, whether we should be concerned with it, if there's something that we should be doing different. Thanks a lot for coming down.

MR. MANNING:

Sure. And thank you very much. I appreciate you taking this time.

We are well aware of how beautiful it is outside. And we could either reconvene in the park or we can be brief. So your call.

CHAIRMAN ALDEN:

Actually, if you want to work with Legislator Carpenter, maybe we can go over to the beach or something, to her district.

MR. MANNING:

I won't admit to how little I've been able to do that this summer, it's been busy. But I do want to point out that I want thank all of you for giving us this kind of time and for inviting us to come in to respond to some of the concerns that have been raised. I think you

all know Tom DeJesu, who heads up Government Affairs for KeySpan, the KeySpan Corporation. You also -- some of you may know Vinny Frigeria, who has been known to sit in that row. But we also have Katie. Katie {Boldencroft} is an Ithaca student, who's our intern for this summer, and is from Smithtown. So this is a great opportunity for them to observe.

CHAIRMAN ALDEN:

Katie, come on forward, because newbees have to sit on the desk, and they have to sing their alma mata.

LEG. NOWICK:

Katie, you are in my district, you can do whatever you want.

MR. MANNING:

Katie's really here to see brutal cross-examination, so I'm sure she won't be disappointed. But just two minutes, Chairman, because we don't get much chance to do this. Let me take you back five years for just a second to remind us how we get here, why we're here. My job is I head up within KeySpan all of the environment -- Corporate Affairs of KeySpan is all of the environmental compliance, environmental policy, environmental engineering, public affairs, government relations, anything we do externally, that's my job. And that's very important. I report to Bob Catell who is the Chairman, who also, of course, you know lives on Long Island.

And the way this happened was you will all recall that LILCO was the utility on Long Island. It was primarily a power company, but it also was the gas distributor. They didn't love the gas business, they loves the electric business. As a result, only about 30% of the people on Long Island, five, ten years ago, actually used gas to heat

their homes. The rest were on oil heat. Brooklyn Union, which goes back over a hundred years in the City had about 90 to 95% penetration of gas in the City, because they had been a much more aggressive gas company, didn't have an electric side.

So when the whole Shoreham, and everyone at this table knows the story, when KeySpan was essentially formed, you had this wonderful solution to the high power rates out here, which beget LIPA, so we have this wonderful working relationship with LIPA, we've even had to run their system. So LIPA is about 50, 60 people as you know. And we are -- those people up on the poles that have the KeySpan trucks, they're all -- LIPA trucks, they're all KeySpan people. But as a result, because it was electric focused, we are the fastest growing gas company in the United States. Because in New England where we also purchase Boston gas, we operate right up to New Hampshire, and on Long Island this is sort of the last great market for home heating oil in the US. In the US today, new home construction, 70% is heated with gas, 27% with electric, which is mainly in the south, heat pumps where you don't have a high heat level, and less than 3% goes to oil. On Long Island, about 95% of your new construction goes to gas.

Fortunately, wherever gas is available, people are putting gas in their homes as they build new homes. So that's part of what you are seeing here is that there's a changing market place, because the oil heat dealers still have a robust business, over 50% of the people in

Suffolk certainly still operate with home heat from the oil dealers, and they have a great relationship with their customers. The disadvantage of gas is we hook people up and there's a much lower maintenance regime and it just gets delivered all the time. So it's a struggle for us to have that customer relationship. So we -- we admire the work that the oil heat dealers have done in maintaining their business and maintaining their relationship with their consumers. So that's kind of how we get there.

What we've done is, KeySpan is a new company, we've spent a lot of time in this community because of that, because we don't have that monthly contact with our customers, we do a lot of stuff in the community. Jamesport. I don't know how many of you were -- were -- are privy because good old Newsday wrote it up with just kind of three lines, but Jamesport is the largest undeveloped piece of land in the East Coast of the United States. It was supposed to be Shoreham II. It was brought by LILCO 20 years ago to build a nuclear plant on it. Well, can you imagine if we came in here and suggested we'd like to

come back and try to build a nuclear plant in Suffolk County on the North Shore? So there was a lot of interest in purchasing that land. A lot of people wanted to turn it into a golf course or develop it very intensively. And we did a deal, and we sold it to the state for a bargain. We sold it essentially for less than half its value, KeySpan did, because we wanted to make that statement in terms of the long term preservation. That's kind of our story and the sorts of things we do out here.

Now, the price issue on energy has been tough, last year was a very difficult for year for pricing. Number one, it was a cold winter. When Mr. Rooney was in here, he pointed out it wasn't really that cold statistically. Well, since he's been here, we've now found out that the weather service screwed up their algorithms. It was much colder last year than it has been in past years. Literally, the weather service data was incorrect. And we all sat around saying, gee, it sure seemed like it was a cold winter, but they're saying it was like two percent colder. What's interesting is we're -- we're actually doing -- the Secretary of Energy is doing a study on the long term future of nature gas. He's got Exxon Corporation doing the upstream, all of the drilling side, we've got {Akinda Morgan} which is a big pipeline company doing the middle, and Bob Catell is sharing the downstream. So KeySpan is participating in an international North American study, which has taken up over 70% of my time, and that will be out in a October. So we don't have any paper for you today, but ultimately we're going to get you a copy of that study when it's released, which we would anticipate with happen in October. Talking about pricing, long term future, supply, all of those issues are going to be addressed in that study.

So in terms of pricing last year, it was tough at the pump. We had a lot of instability, as you know, in the Middle East. Venezuela went on strike, Nigeria went on strike for other reasons, I mean, there were riots in Nigeria. So we have got a lot of sensitivity in where we get out energy from. That's one of the reasons why there's been this huge appetite for gas, because gas is a domestic fuel. With the exception of Boston, where it does come in by ship, and now their coal point's been reopened, there' some energy, but it's less than 1% of

our supply. The gas that we're using here is about 75% from the US and 25% from Canada. And that's -- one of the advantages of it is that domestic fuel, it's not quite so susceptible to the swing shifts. Where it is susceptible though is that a lot of large users can use gas and oil. So if oil's cheaper, they're going to go use oil. And

if gas is cheaper, they're going to swing back to gas.

And a lot of them can't do that, however, and that's one of the reasons why we're here. Mr. Rooney's members are supplying an industry in a changing market place. See, the schools, the hospitals, many of them have gone on to natural gas, but they use it on an interruptible basis. Entemann's, one of the largest industrial users of gas on Long Island, probably, you know, one the largest that you are familiar with, they can't switch to oil because they bake bread. So you can't use oil in a bakery. It just doesn't meet their sanitary standards, it's not clean enough. The automotive industry can't use oil. They warm their paint, they dry their paint with natural gas. So -- the pulp and paper industry, it can't use oil to dry out the white toilet paper, it has to be gas. As a result, there's been this big demand for natural gas. It also is the only way you can comply with the air quality stuff.

We'll be back to see you probably next year, because your electric prices are going to be impacted by these new standards imposed by the state on sulfur dioxide and NOx, SO2 and NOx are relatively minor within the natural gas world. They are higher in the oil world, and they're brutal in the coal world. So we haven't burned coal in down state New York since '76. You know, New York City, Long Island, there's no coal plants out here, they're gone. Coal is still over 50% of the US power supply. So what's happened is it's cleaner for the air, cleaner for the product and then unique to Long Island, you also don't store it underground. The other big push is happening by the day, other villages and municipalities are looking for ways to ban or discourage or incentivize people to get rid of their underground oil storage, because we have a sole source aquifer. Everybody here knows breast cancer rates and the sole source aquifer. We're all worried about the environmental quality of Long Island, because we live here. You know, it took me 15 minutes to get here this morning. As you well know, I'm in Angie's district. So that's another big issue is that we're also getting a big demand for gas when people don't want to maintain that storage in the ground.

You probably also remember we've been trying to build a power plant right off of 110, Spagnoli Road. We couldn't -- legally we could put an oil tank out there as backup fuel, we couldn't get it approved locally. The local resistance, even though it was a double wall tank with a sealed concrete base, we couldn't get it done. So that's another issue that's putting pressure on the gas business.

So let me tell you what the Public Service Commission does. We are the public utility, KeySpan has other businesses, but for the most part our big business is that we run the power unit for LIPA, we maintain their system, we own those power plants, and we also operate a gas system under KeySpan Energy Delivery. So that's the utility. We don't make a move without the Public Service Commission in Albany.

So the PSC has created, as have other PSCs around the country, have

created this animal called interruptible gas rates. They allow us to collect from our customers the cost of putting pipe in the ground and building our system. They only let us build our system to serve the people that sign up for firm gas, which is all the small businesses, which is all the residential market. When you sign up for gas in your home, it's firm, it's always going to be. No interruptibles in the residential businesses at all. Residential, small commercial, that's all firm. Schools, hospitals, big -- you know, The Housing Authority, they can go firm if they want, but their gas prices will become much higher, because they are high volume users.

So what the PSC did was they said, look, if you're going to lay all this pipe, it's like you have to build the Long Island Expressway for 8:00 on Monday morning, but it's still going to be there at midnight. So how are we going to get people to go to work at midnight, you know, that discussion. But in the gas business, the PSC says you have all that pipe in the ground, we're going to make it attractive for big users to use that pipe when it's available, but they won't be on the system when you need it for your firm customers. As a result, a firm customer pays, like say, one dollar. Well, the interruptible customer comes along, they pay just for the gas. KeySpan makes no profit off the interruptible business. Mr. Rooney graciously indicated that the interruptible business is great for the gas companies, well it's not. We don't really make any profit off that at all. So it moves, as he said, at dumping prices. Well, we don't dump natural gas because it's a premium fuel. But the gas moves very cheaply to interruptibles.

So here's the rules. You sign up in your home for gas, it's going to be there. And our rates that we charge you are set by the Public Service Commission. If they vary, it will vary because of the gas supply costs, I'll come back to that in a moment. KeySpan hasn't had a rate case since the last century, a while back in the last century. So KeySpan itself, we haven't been able to raise our rates for years. So the PSC sets those rates, and that's firm, and it's just simple, and it's always going to be there. On the interruptible rate, if the temperature drops below like 15 degrees fahrenheit, ten degrees, depending on the load and who else is around and what's going on, we may indicate to those interruptible customers that they have to switch to an alternate fuel, which, of course, out here may be Number Six, which is that heavy sludge.

Number Six oil is what we use in the power plants. But you don't use

Number Six in your home. Number Six can be in the hospitals, can be in the large industrial complexes. You have to warm it just to move it. It's like molasses, it doesn't even pour. So that's the big -- that's the bunker oil, that's Number Six. So that's the big plants. So when our big plants are on oil, it has no impact on the residential market, they use a different stuff. Kerosene is jet fuel, that's Number One, and it runs some of our turbines. Number Two is the heating oil market, and the Number Two oil can be used, of course, in industrial applications or hospitals or large homes. But for the more part the big ones use Number Six because it's just cheaper. So as a result, it gets cold, 15 degrees, we call up and say, tomorrow, based on the weather reports, we're going to have to switch off your gas.

Yeah, 600 customers on Long Island, that's what we're talking about,

total. There's a much larger number in New York City under what's called temperature control, where they automatically go off. They just know when it hits 15 degrees, there's a solenoid switch that just turns them off. And it's worked that way for many, many years. On Long Island, we have 600 customers which switch off gas on to oil. Because we had some pressure in the past in the last couple of years, this has become a big issue. It wasn't an issue until a couple of years ago. The difference is called, just in time inventory. You may remember that when the Indonesian economy collapsed, when East Asia went in the dumpster three or four years ago, the price of oil went down to 12 bucks. You also heard Mr. Rooney say that last winter with all the pressure in Iraq it was 39 bucks. So you got oil that has massive swings. If Venezuela goes on strike, price goes up, because they are a huge supplier. Venezuela is one of the largest gasoline retailers in American. People don't realize it, but the Venezuelan Government owns Phillips 66, they own two or three major retailers. Exxon, Shell and Mobil, they are the only suppliers that are larger than those people. So there's a lot going on out there in the international energy market which -- which -- which we don't, you know, easily understand.

But as a result, you get these geopolitical uncertainties, you've got the shifts in supply cut, where somebody get cut off and as a result, the oil dealers have gone to a just in time inventory. They don't want to but a whole bunch of oil at 39 bucks if it's going to go to 30 the next week. I can understand that. However, on the gas side, we have one of the largest storage capacities in American as a company, for a gas company. We have 103 billion cubic feet of gas in storage as we enter the winter, because that's our job as reliability. Twenty

percent of it is in Pennsylvania, and these are all salt domes, we actually pump it into the ground, and it's trapped by salt domes under the ground. We pump it in during the summer, we pump it out during winter. It's down, about 80% of it is in the Louisiana area, it's in the supply area. We put a lot of gas in storage there. We have it in tanks. Holtsville has a liquefied natural gas tank. Queens, we have an LNG tank. So we sock that storage in in the fall to be ready for the winter. So 50% of our needs for Long Island are in storage, paid for by long term contracts. Fixed contracts for pipelines are in the tank. That's how we operate.

Now, as you heard Mr. Rooney say, the oil dealers have tended to go to a four or five day supply. So that's what caused this tightness is that there's a high cost of environmental compliance with oil tanks, and there's a lot of uncertainty in the oil price. So there's been a change in their business model. So the solution was the Public Service Commission came down and said, look, we like this system because we're now able to supply the big housing projects, the affordable housing units and hospitals and schools, with much cheaper gas, so we're going to mandate that anybody that wants to get cheap gas, on an interruptible rate has to have ten days of supply in the ground. And that was the rule that they passed. They've had two meetings. Mr. Rooney mentioned that there would be a process in July. The PSC had a meeting in New York City a couple of months ago, last month up in Albany, and they reviewed this. And the customers came in and testified and oil dealers came in and testified. There's not been any permanent finding. As we understand it, the PSC is not to

inclined to change it. They like the ten day rule, they think it's adequate. The customers were in there saying if the oil dealers are only going to put a four day supply in their tank, why should we put a 30 day supply in our tank?

So there's a bit of a thing going on between those who use it and those who supply it, but the PSC -- my instinct is, I'm not testifying to this because we haven't heard any kind of decision, but our read on this is that the system works. So for very large consumers, you have a very very low price of fuel, relatively speaking. And the oil dealers maintain that business, because they would otherwise have lost customers permanently. And if it's a very, very cold winter, oil dealers will continue to supply them. And if it's a very, very warm winter, none of us make any money. That's just kind of how it works. So in terms of supply, you heard about some high gas prices, gasoline is high, oil is 30 bucks, still a lot going on in the Middle East,

there's a lot of uncertainty out there. On the gas side, last winter when oil prices were so high, everybody who could was using gas. So it really hit gas storage. Gas storage was low. Fortunately, we've had a fairly moderate summer, so oil is flowing back into storage, but gas prices -- natural gas prices will be higher this winter. But when you read about the commodity price going to five bucks where it used to be 2.50, remember that that gas is in the Gulf of Mexico, it's in Western Canada, it's offshore of Nova Scotia. It has to get here. So there's a pipeline cost to get here, because let's face it, on Long Island, we're at the end of the pipe. So part of your cost is to get it to Long Island, part of your cost is good old KeySpan to operate that system that goes to every home. So by the time it gets to you, it's about 25% of your bill. So when you see the price of gas jump, only about 25% of your bill actually moves. The other 75 is pretty much fixed. So it's not so much a billing issue as a wellhead price issue.

So you have to be careful when you read about these high prices. The relationship between the barrel of oil and the gasoline pump is much more direct, and that's usually where you hear about it first. So that's our situation. Lots of gas around, but unfortunately, everybody wants some. It's got big advantages for the air, big advantages for the water, and it's the only thing that you can use if you have to comply with the State of New York's Air Quality Standards most the time. So, yes, there's lots of gas, but, yeah, everybody wants it.

Number two, price. Yeah, it's more expensive because of this high demand and because oil prices are very high. But your customers, your voters, our customers, it's only about 25% of the bill. Thirdly, the interruptible system, it works for a lot of reasons and it worked fine last winter. You have heard that it's a problem because it puts a lot of pressure on the oil dealers because they don't get a lot of notice. It was never an issue up until now, because they used to maintain those inventories that had that oil available. So that's kind of, I think, where we stand.

But -- and I've spoken way too long, because really I wanted to come and answer your questions, because you had Mr. Rooney in. And I know that -- and I have read your minutes, you had some pretty robust

questions then, so I would love to get this sorted out, because we will come back. We will come back and talk about the price of power with this committee when all of these new regulations hit. And we

will be back in the middle of winter. If we have a very cold winter, prices of everything are going to be higher. This has been a moderate summer, we're not making a lot of money in the power business right now. We haven't had a lot to worry about. You know, you haven't seen Mr. Kessel on Channel 12 normally as much as usual, because we haven't had -- we haven't had any real, real, real weather pressure. August is still coming. And if it's a cold winter, we'll be back.

CHAIRMAN ALDEN:

I'm real interested when you get that study done with the Energy Commission, because I've been reading a lot of stuff from Alan Greenspan, and I saw some comments by Warren Buffet. Warren Buffet, by the way, owns a pretty good chunk of the pipeline that you are talking about now. And I think there was some indication on their part that gas -- you know, new gas finds might be, you know, like not evaporating, but shrinking. And the amount of gas that we have to discovered and amount of gas that we have, you know, like, so to speak right now in our supply line might be shrinking a little bit. So that would put upward pressure on prices.

MR. MANNING:

Well, it's interesting you should mention that, because when Alan Greenspan got up and spoke, I was actually in Houston on my Blackberry, and we had just broken for lunch working on this gas study there were about 50 people in the room. And I'm standing out there and everybody's in food line. And I start scrolling through my Blackberry reading Greenspan's testimony, which, of course, is saying this could hurt the economy, we may be running out, we're going to have to do this. So we all just said, oh, my God. And absolutely, Greenspan has put this on the front page. Now, here's what I think is going on with his testimony. We have got a lot of pressure on our domestic supply of gas in the United States. It's been met for years by Canada. What I can't -- you know, as you may recall, I'm Canadian. That's how I got here.

CHAIRMAN ALDEN:

No problem, my mother was Canadian.

MR. MANNING:

Bob Catell, who lives in Garden city went to Texas many years ago in the '70s because we had no price -- and this was back when LILCO had a moratorium, you couldn't get gas from LILCO because you couldn't get the gas here. The pipelines were full, you just couldn't get it. So Catell went down and said, I have grow my business, I want more gas. And Texas basically said, fine, when we're ready to do it, we'll do it. So he went to Canada. Tells a great story, he got off the plane in his unlined trench coat in January. Who else but Catell could get on a plane at Laguardia, fly to Alberta, not check the weather report because he was more interested in his business. It was 28 below, he froze to death. But then he had this Iriquois pipeline project, which

lands at Northport. And he got six years to get it approved, six months to get a bill. And that brought the price down a buck on Long Island and raised it a buck in Alberta there were trapped in that

California market. So that's what happened back in 1990. So he was able to bring gas here. Until that time, we couldn't grow our system. So we've been growing steadily since 1990.

Now, what's happened, Cameron, you are right, it's very difficult to put in a pipeline. We are trying to build the Islander East pipeline, which could land in Shoreham. And the first think it would is convert Wading River, which is an oil power plant to gas. It's a huge win for Long Island. The Pine Barrens gave us an award for it. We're going to actually drill underneath the William Floyd Parkway so we don't knock down any trees. I mean, it's an environmental gold plate, and Connecticut said, forget about it. And so we're now -- and Tom and I will spend all day tomorrow in Boston trying to figure out what to do about Connecticut. Connecticut get 95% of its gas across New York State. But you think they're going to allow that pipeline to cross over the Long Island Sound? It has to go through 24 miles of Connecticut. And so that's our issue.

Now, of course, the issue is extreme environmental compliance. You know, we have to do the right thing. But I think Greenspan's point is it's hard to build infrastructure today, hard to build power plants, hard to build pipelines. Connecticut will raise legitimate issues. We'll have to meet the highest standards to do that, but it's tougher and tougher to do. Now, the other issue is supply. Most of the gas o in the world is located outside of North American, there's huge supplies. And it's in places like Trinidad, it's in places like Russia, where there isn't a market for it. So what we're doing there is -- Greenspan is saying, you have to increase and ramp up your market for liquefied natural gas. The technology is there. It's very inexpensive now because of the sophistication of the machinery. But you chill it -- and the ships are giant Thermos bottles. You chill the gas to 260 below, it dries across the sea, a little bit warms and evaporates off the top, that runs the ship. You come into Boston Harbor, you load it into a tank, and there's your gas supply. So you've got gas now coming from places like Trinidad that don't have -- and the majority of the gas coming to the US right now is coming from Trinidad. So now you are developing a world market in gas much like you have now in oil.

So that's what Greenspan was trying to say. Look, long term, there's

huge environmental benefits. You are going to have a drill in some of the areas that are off limits, you won't drill in the wilderness areas, but there's places that we can drill. We're drill off Boston now, but it's in Nova Scotia waters. There was an ad -- there was a notice in the Boston papers, they are now drilling off the Nova Scotia shelf, which happens to be directly in line with Boston. The Boston paper said, they're drilling for gas in the Atlantic of Boston. And I was watching carefully to see if anybody reacted, because, you know, Boston would, say, oh, boy, you're not going to drill for oil off my beach. Well, it happens to be off Nova Scotia, because it's 250 miles out. But they are drilling off of Eastern Canada. So that was Greenspan's point, lots of gas out there, we just have to get it.

CHAIRMAN ALDEN:

Worst case scenario, you know, like, if the winds are blowing the wrong way, if we've got ice and things like that and they can't get

the oil, you know, on to the Island, because they ship everything in for us, worst case scenario, can your company handle those interruptibles if they had to stay on gas, the hospitals, the schools, the housing projects that you mentioned?

MR. MANNING:

Absolutely. They -- they do have to pay a higher rate. That's the way the rate structure works is that -- now, could I say that if it was brutally cold, if it was bitterly cold and every interruptible customer wanted to stay on gas, there was literally no oil around, we haven't built our system to that scale. But if a number of our interruptibles came to us and said we have to stay on gas, and this does happen, sure it happens, absolutely, but they pay a much higher rate. They pay higher than the firm rate.

MR. DEJESU:

Then when they get their bill, they call us and say, what happened here? Well, you didn't get off when you were supposed to.

MR. MANNING:

Or they call you. Because they say, you know, the care taker was out that day, he didn't have his pager on. We've had one or two of those. The difficulty is the Public Service Commission runs that business. So it's their decision. So there's not much we as a company can do. But absolutely, if one of your interruptible customers in Suffolk County --

MR. DEJESU:

If they couldn't get product and they had to stay on gas, Cameron, there would be no problem.

CHAIRMAN ALDEN:

That's one of the worries, you know, like a hospital or a school or something like that.

MR. DEJESU:

It would not happen.

MR. MANNING:

You may remember that there was -- there was an issue with Mather Hospital briefly, because our gas system runs down the center of the Island, that's where the big pipes are, along the LIE, and the hospitals, I don't know why, but they're kind of out on the shore. If you think about it, we built these huge hospital plants quite some distance from our system. So there was a brief period there where there was some pressure. But we do everything we can, we shuffle stuff around. And of course, we also can have some of your customers drop off the system voluntarily, if they choose to and we credit them for that. We work the system out of your control room in Hicksville on a second by second basis.

CHAIRMAN ALDEN:

I have a couple more questions, but Legislator Nowick had indicated she wanted to ask something.

LEG. NOWICK:

Just a few questions. Bear with me, because I am learning everything there is to know about oil and gasoline.

MR. MANNING:

It's not everybody's favorite topic.

LEG. NOWICK:

In my district, it's very important for me to learn. A few questions. The Spagnoli Road Power Plant, is that down the tubes, did you say, because you couldn't get the oil tank sunk into the ground?

MR. MANNING:

No. It's not down the tubes, but there was an issue because there's

two competing projects; one is by A&P, which was at Yaphank. And the struggle that A&P had is that their gas supply will come from the Islander East pipeline. So where they were having a problem was that the pipeline to bring them their gas isn't in yet, we're still fighting to build, we're trying to get it built across the Sound. So A&P was one possible choice, and they had a gas problem. Spagnoli Road was our project, and we weren't able to get that comfortably situated. But all have what's called Article 10 approved. So we're all approved and permitted, but unfortunately in today's world, LIPA has to make a decision as to what works for them, because we can't finance a plan like that without a sales contract. So Spagnoli Road is still alive, it is still a permitted project that may get built. Yaphank is still alive, it's a permitted project that may get built. But really LIPA will have to make a decision as to what makes more sense for them.

MR. DEJESU:

Legislator, if your question is whether or not the project didn't go forward because we couldn't put an oil tank down, the answer is no.

LEG. NOWICK:

That's what I thought.

MR. MANNING:

I'm sorry. Both of the those plants would be dedicated gas facilities. So in the event they wanted interruptible rates, they just wouldn't run during those periods of interruption. But see, remember the power plant's biggest load is in the summer time. So if it's 40 below in January, there's a big heat load, but you are not running the air conditioners, because the air conditioners are one of the biggest loads that we have on the power side. So it's not as big a problem as it may sound.

LEG. NOWICK:

Another question, and again, you know, when I fill up the gas tank for the barbecue, I have no idea what goes in there. But be that as it may, is gas an off shoot of oil? When you drill for oil, is the gas product in the oil.

MR. MANNING:

Yes. Well, what happens is -- that's a very good question actually -- when you drill in the ground, you generally have a pretty good idea

what you are going to find, but you're not guaranteed. So until you

get down there, it could be oil or gas or both. In Mexico, Mexico's natural gas is trapped in its oil. So when it produces gas it has to produce oil at the same time. So the oil goes to the oil market. So Mexico actually imports gas from the United States. Even though they have their own, they can only get the gas that comes with their oil right now until they drill more. So you can have gas fields -- we actually are involved in the upstream in Mexico and we only do natural gas, that's our business. We don't drill for oil, we drill in places where it's pretty much just gas. So you will have chunks that are just gas. Chunks that are just oil, but there's lots of coal mingling as well.

LEG. NOWICK:
Is the gas liquid?

MR. MANNING:
No. Gas is actually a vapor.

LEG. NOWICK:
It's actually a see through vapor.

MR. MANNING:
Yeah. Oil comes out of the ground as crude, and it's just black ugly stuff, and it goes into a refinery. And what they basically do is they cook it. So the lightest stuff, they just apply heat and the lightest stuff becomes jet fuel and then it come off of different points; you've got diesel fuel, you've got the gasoline for your car. And the lower stuff down at the bottom is what we call this bunker oil, which is heavy molasses-like stuff. So oil gets broken down mechanically into all kinds of different qualities out of this one fee stock. Natural gas comes out pretty clean. It may have liquids in it. You know the butane lighter? Well, the butane is like natural gas. Natural gas is called CH₄; four hydrogen atoms, two carbons. Butane has two, that's why it's called butane, bu is -- so -- so these liquids come out. And that's where the plastics come from, the laminates on this table, this is all from natural gas. But it comes outside as the liquids, and we take those off when it comes out of the ground. So the stuff that goes into your home is dry. And the stuff that comes out of your stove, that's how it comes out of the ground. It has a little liquid mixed into it, nut we take those --

LEG. NOWICK:
So the Iriquois pipeline is where the gas comes in, it goes -- in my district -- over to Northport to where they want to put the power plant over there.

MR. MANNING:
Yes. Right. That big Iriquois plant, that pipeline, actually goes all the way to Calgary, Alberta, Canada. That goes back 3000 miles. So the gas comes out of the ground in Alberta in Western Canada, which

is where I grew up, which is where I'm from, enters the pipe in Alberta, goes all the way across Canada, drops down at Iriquois, Ontario and lands at Northport. And because of the efficiency -- it's about 1100 pounds of pressure, and there's giant pumps that keep it moving all the way across. And because of the efficiency of the

pipeline system -- these pipes are 30 inches across.

LEG. NOWICK:

By the way, I did get an opportunity, which most women don't get to do, to go see an operating power in Wallingford, Connecticut and enter the actual place where there's wires. It was very interesting.

MR. MANNING:

And we should do more of that, frankly.

LEG. NOWICK:

Very, very quite, very interesting.

MR. MANNING:

Our facilities -- we have things that are called take stations, the gas comes in in giant pipes into a take station and that's where we take the gas off and put into smaller pipes. And by the time it gets to your home, you've taken in a 100 pounds of pressure from Alberta down to half a pound pressure that comes out of your stove. So the gas in the system coming down the street is at a very low pressure, and that's the pressure that you would use for your oil or furnace, stove or water heater. So we have a whole series of valves that we operate, which would bring it down and bring it down.

LEG. NOWICK:

Thank you very much.

CHAIRMAN ALDEN:

I don't know if you can share it with us, but the projected growth rate for -- or the development rate for Suffolk County that you kind of have if you are looking forward. Do you want to grow at 10%, 20%? And a lot of it depends on how much, you know, pipe you could put in the ground, I guess.

MR. MANNING:

Yeah. We've been laying -- within our system, we've been laying about a million feet of pipe a year, which is -- which is huge. It's almost unheard of because the demand has been there. Our growth out here is

more rapid than it is elsewhere, because of the number of conversions. I mean, 10% would be -- would be huge. I mean, if we grow at two or 3%, which I think is probably our rate, that's still puts us -- as I said, we're the fastest growing gas company in the United States, but it's not hard to see why. Because you don't have that big heating oil load elsewhere in the country. Where I come from, everybody's on gas, it just isn't an option. And that's in the north where, of course, you heat. So our growth will be driven in large part by the economy. It will be driven a little bit by price, because we're heading into a tough price environment for oil and gas. So you know, people are driven that way, but it's also being driven -- there's a lot of initiatives to try and alleviate the oil storage issue. That's still a big problem on the Island. You know, that's -- so that's where a lot of our business comes from is converting -- it's easier when the larger facilities like schools, but a lot of those tanks are coming out of the ground.

MR. DEJESU:

All of the newer tract housing as you see, Cameron, if you look in Friday's Newsday as see the new developers, most of the them will have a KeySpan logo because they believe that that's an asset to building a new development. And it's certainly better than putting tanks in the ground, where the developers know how difficult that can be years down the road in terms of environmental hazards.

MR. MANNING:

We don't pay for that advertizing. When you see all those little KeySpan logos in those sales ads, they put that in. We let them do it as long as we're providing them gas.

CHAIRMAN ALDEN:

Legislator Lindsay.

LEG. LINDSAY:

Hello, Mr. Manning. Going back to the original deal, KeySpan owns the existing power plants; am I correct?

MR. MANNING:

Most, yes. LIPA brought about 60% of its power from KeySpan last year. So while you keep hearing that KeySpan owns all the power plants on Long Island, that's not quite accurate. We own the majority of them.

LEG. LINDSAY:

The old plants that were part of the old LILCO system.

MR. MANNING:

Yes. Those we do own, absolutely.

LEG. LINDSAY:

I guess it was about 18months ago, Mr. Kessel was before this committee, and we had a long discussion about repowering those power plants, which is very appealing certainly to us because there is no siting hearings, and you know, the facilities are power plants, it's never going to change. Is there anything more on that?

MR. MANNING:

Yeah. Legislator, it's a very good point. And if we could do something like that, you would have a lineup of environmentalists out the door saying great work, because obviously not only do you not have to face the discomfort of a Greenfield project of your constituents coming and saying, I don't really want a power plant, I've been here for 20 years, don't build one next door. Whereas those, for instance, around Northport, we have great relationships, I would suggest, with one or two minor exceptions, with the people who live in the vicinity of our plants, because the way we operate them, the amenities that we provide to the communities. So the huge advantage of repowering is efficiency. The good news for you is that it's not a new site, you expand on that same site. The real efficiency is you take out what's called simple cycle. Here's the dream. Those plants now are giant tea kettles. You are bringing in gas or bunker oil and you heat water. And the water is made into steam -- these are the old plants that you would be familiar with -- and the steam goes through a

turbine and spins it and that drives a generator and you have electricity. That's simple cycle, and that's the majority of the power by far on Long Island and throughout the US.

Combined cycle. You actually use generators running on natural gas at the front end, it's like a jet motor, not unlike a DC-10. So that motor generates electricity, which is used in Suffolk County. The heat running off the back end, it runs the boiler. So instead of going right up the stack and out in the air as it does in a simple cycle, a combined cycle, the heat from your primary source of power, your first generator, is captured in a boiler behind that engine. So you have the engine drive and power making water, making steam. So

that steam runs a second turbine. So now you have two different sources. And of course this will drive Tom nuts, my favorite story, we don't have a big industrial load out here, but what you really want is co-generation. When the steam comes out the back end of the plant -- and I cut the ribbon in a past life at a plant in Oregon, which is where they grow all the potatoes, it was right on the corner of Idaho, all these Idaho potatoes -- the steam goes out the back and into a McDonald's french fry plant, blows the skin off the potatoes, runs the slicers, runs the cookers, runs the freezers and goes back into the power plant. So their efficiency is phenomenal. And of course, the environmentalists say -- and it makes a million pounds of french fries a day. And of course, the environmentalists said, that's pollution. So if we could just grow enough potatoes in Suffolk County to have a McDonald's plant, we'll get you an 80% efficient power plant.

LEG. NOWICK:

We used to.

MR. MANNING:

I know.

LEG. LINDSAY:

But are we any closer to that repowering scheme?

MR. MANNING:

Yes, we are. We've done some extensive studies. We've now gone to a second tier of that study with LIPA. LIPA is considering it. The economics are iffy, in other words, the efficiency -- the cost of reconstruction is probably as high as building new. But longer term, we think that is the bottom line.

LEG. LINDSAY:

You don't have the legal battles, you don't have the siting problem.

MR. MANNING:

Absolutely. The difficulty that Tom and I do, because our job is to convince an area that this is a legitimate use, and that they need the plant. So it would be so much easier for our team if we could repower. So you are looking at two of the biggest cheerleaders for this.

MR. DEJESU:

Bill, there is no doubt in my mind that when LIPA finalizes its energy master plan, you are going to see a chunk of it dedicated to

repowering. And I think we've had, you know, extensive conversations with LIPA over this issue. And we are a willing partner to find what we would consider the best power plant to utilize this technology, to repower the best site. And we've analyzed just about all of your plants, we've given all of that information to the Long Island Power Authority, and we're hopeful that they are going to choose one or two sites possibly that have the potential to be repowered. The question really becomes -- Bill, in their minds, they're the ones who set the policy agenda about when, where and how. But as far as we're concerned, we're very interested and we want to be a willing partner in that effort, because we know how difficult Spagnoli has been for us.

LEG. LINDSAY:

It's getting tougher and tougher every year.

MR. MANNING:

And you would say, well, what's the study. I mean, it just makes so much sense on the surface. The kind of level of detail, you have to have a gas supply, because these new turbines on the front end have to run on gas. You cannot get a GE turbine --

LEG. LINDSAY:

I don't mean to interrupt you, but most of your plants now, Northport, Port Jeff, all have gas into them for dual --

MR. MANNING:

Yes. They're all dual fuel. Wading River is the only one that does not have that capability because there's no gas supply to Shoreham. So those plants at Shoreham are all running on oil or distillate now. But as I said, LIPA has to figure out -- they have their own system, so a plant may be repowered, which would double its output, but the power has to get to the load, it's got to get to where it's needed. So that's one of the factors. Some plants might be perfect because they have space, they have a gas supply, but then they have transmission costs. So those are all the moving parts we're working on. But again, the pressure should continue to come from committees such as this.

LEG. LINDSAY:

If I may, Mr. Chairman. This is really an aside to what you're talking about, but something that you should know. I think everyone of us deals with KeySpan over constituent issues, really minor issues from maybe a little hole in the road and you didn't patch it properly or you have an easement or there's tree that's dead in the middle of the power lines or something like that. And we all deal with utilities from Cablevision to Verizon to KeySpan. By far, speaking from one Legislator, your office is the most responsive of any utility that I deal with. Tom and Vinny are really good people to deal with

and you should know that.

MR. MANNING:

I will thank you very much. I must say I heard it before, but you can never hear that too much, because this is a tough crowd. One of our former, now retired Vice-President lives in Connecticut, and he said, my power in Connecticut goes off four or five times in July, but we

don't have Newsday. It's a tough crowd, and we think, you know, we serve that crowd. And so your comments are duly noted and very much appreciated.

CHAIRMAN ALDEN:

Legislator Carpenter.

LEG. CARPENTER:

I'm glad to hear you say that you can't hear it enough, because I'd like to reiterate what Bill has said as far as the service and feedback we get from gentlemen like Vinny and Tom. And also too the incredible job that KeySpan has done in its short history here in Suffolk County in reaching out to the communities in various project and initiatives and supporting causes. There isn't an event that I go to that I don't see that KeySpan is a sponsor, and that really means a lot.

CHAIRMAN ALDEN:

We have an intern here, we're supposed to beat up on them, not -- we want to be tough.

LEG. CARPENTER:

We'll leave that to you.

MR. MANNING:

Well, on that note, we get a lot of guidance. And Legislator Carpenter, you, of course, have always been forthcoming in helping us, because you're here all the time, you're here everyday, we try to be. So we appreciate the feedback that we get also in terms of where our resources, which are very limited, are best used. So we need that feedback.

LEG. CARPENTER:

It's surely is a partnership, and we thank you. One of the things that Bill had asked about, repowering the plants, do you know off the top of your head how many there are in Suffolk?

MR. MANNING:

Well, we have -- there's different sizes of plants. Remember that the majority of your load is in Nassau County. Don't forget that's where 75% of the power on Long Island is consumed is in Nassau. And it's just -- do the math. So you're -- but you have a big plant at Northport. Northport, there's a space issue at Northport. It's a little -- it's a bit tight in there, but that certainly -- there's four massive 360 megawatt units in a row, four different trains of power at Northport. The plants that are further east are very, very small. They are smaller turbine units. So that's not really a candidate. What you're really trying to do is convert the steam units at Port Jeff. {Berek} is in Island Park, that would be a candidate, but there's some transmissions -- but out here, you don't have the load. Our trick here -- LIPA's trick really, LIPA's challenge, is to be able to position the generation where the load is. Because you know, the transmission system is very expensive, and you know the issue of overhead lines. Overhead transmission is a huge issue in America today. So it's almost easier to build a power plant than it is to build a transmission line. So -- so we don't have a lot of

candidates in Suffolk County.

MR. DEJESU:

Also, because the plants in Suffolk are actually newer, Angie, and more efficient and cleaner. The oldest ones are really the better targets as far as the emissions; about cleaning up the emissions and about making sure you can have the room to put the new equipment in it. It's basically you're cleaning the inside and taking the inside out and putting new insides in. The oldest plants in need of the most work are the ones in Nassau County.

MR. MANNING:

And we just did a peaking unit at Port Jeff, as you know. And one of the reasons why it's located outside of the existing plant was try to preserve some space within the existing plant for an ultimate repowering. But to do that -- I mean, we analyzed it, you would have to reinforce the floor. The new equipment coming in would require some remedial work. So that's all part the study. But certainly, you have a couple of candidates there in Port Jeff and Northport.

LEG. CARPENTER:

The other thing I wanted to ask about, when the change was made about KeySpan being able to deliver service to the residential consumer, how

has that ultimately impacted the consumer? Because I really have not gotten any complaints about that. And is that something from a business side that you would like to see happen again, that you would be able to be in that service side or not?

MR. MANNING:

You're talking about retail choice?

LEG. CARPENTER:

Right.

MR. MANNING:

Yeah. Retail choice is a real challenge in the United States. The uptake retail choice is where you would have the opportunity to buy from anyone, both your electricity and your gas, we would still collect the PSC allowed fee for the -- we would become Federal Express. We just get -- we just get a rent on our lines and pipes. Unfortunately, the take-up around the US -- the uptake has only been like three to 6% max of people who've actually switched. So we have been modestly successful in some other regions doing that. It's something that we encouraged because we wanted to create the best energy price that we could. So we were one of the -- we were actually the most aggressive company in New York State before the PSC to get in retail choice.

MR. DEJESU:

I don't think -- I think, Legislator, the real problem for KeySpan and other energy service companies, it's very hard to compete with the public authority, quite frankly. And only if -- and only if -- basically, we've been successful with very, very large industrial users. And there are few on Long Island, so it has been difficult, but.

MR. MANNING:

You know what? Vinny has just corrected my understanding. You are talking about the issue, of course, our inability to deliver service in a home.

LEG. CARPENTER:

That's all right. That was very informative.

MR. MANNING:

It's my fault. You were very patient.

LEG. CARPENTER:

See, he's just reinforcing his value.

MR. MANNING:

Much bigger issue for us. When I first started to speak, I said, you know, the problem we have is --

LEG. CARPENTER:

Right. And that was what made me think of asking you that.

MR. MANNING:

It's a real challenge, because no offense to the oil heat dealers, but they get to come out every month and there's a smile and the driver often coaches soccer and you pay your bill. We don't get to do that stuff, because our system, once we're in the ground, it's just always there. We disappear from your mind. Now, the other challenge is the Public Service Commission, after tremendous pressure from the plumbers frankly, the issue was that they wanted to maintain their businesses, which is understandable, and said the utility doesn't need to be in this business, get the utilities out of the home repair business. So it wasn't really our choice, it wasn't something we were looking to do. The PSC made that decision. I think it's working much better now. I think the service levels are up. We do -- if they call us for help, we do have a rolling list. We give them five names and numbers that they can call. We're entitled to be on that list, because KepSpan's entitled to own a service company, which we have, it's called KeySpan Home Energy Services. And as long as we don't send everybody to them, we're allowed to do that. We have a rotation. And if you call with a problem -- now, if you have -- if you smell gas, if there's a gas emergency and you call us, we're there. And we are absolutely there. And so that's --

MR. DEJESU:

Just so you know, Legislator, in the winter time when we get calls in the middle of the night and that customer's information comes up on the screen, we know if they're a senior citizen, if they're home alone, if they have certain medical needs. It's really all on our system. We would never ever not tell anybody that we're going to send them to someone else in the middle of the night, especially if they smell gas. So we try to make a situation safe and make sure that the customer is safe. And then and only then -- then that customer can go on. If there are extensive repairs that need to be done, we have to say, you know, you really have to have an energy service company come and do the rest of these repairs.

LEG. CARPENTER:

But then KeySpan can always be one of those providers.

MR. DEJESU:

On an equal playing field, on a level playing field.

MR. MANNING:

And we do go out and sell service contracts. So I mean, it's entirely possible that you can sign up a service contract with KeySpan or even just call us KeySpan to get that same level of service. What's tricky for us is we're now allowed to drive that business off the utility. So yeah, anybody that wants to can phone up KeySpan and have that same level of service they're used to, but they can also phone Sломans and everybody else. And that's really what I think the PSC --

LEG. CARPENTER:

Well, from a consumer's point of view, and we do have gas in our home, I would feel more comfortable having KeySpan service, the provider service, then, you know, John's Plumbing down the road just because of what the product is.

MR. MANNING:

That's what we found, and that's why when I mentioned retail choice both on the electric and the gas side, many people have a comfort level with service provided by the utility. So they haven't really left. They haven't gone out and felt that they knew enough about the commodities market to save themselves a few bucks. So it's been a tough -- those are two issues which have been tough for us in the market place, because people haven't really wanted to break away from the old system. But I think service levels are up throughout the Island now given the other energy providers and ourselves. I think we're pretty well covered.

LEG. CARPENTER:

Thank you.

CHAIRMAN ALDEN:

Legislator Lindsay.

LEG. LINDSAY:

The issue that you inadvertently touched on of choice and the whole -- it really goes to the heart of the deregulation movement which we haven't seen in this area too much because of the existence of LIPA. And as it's turned out, I think we're probably better off, because isn't that at the heart of what the problem was in California?

MR. MANNING:

California was actually -- and I should be careful here. Remember, I did work many years in government myself, that's my background. There was a -- there was a deregulation challenge in California. And you're right, there was some opportunistic behavior on the part of some energy providers, and we all know about that, and it was most unfortunate. But the other issue that really broke their back and started them down that road was that they deregulated the wholesale market and didn't deregulate the price. So they set the price that you could sell the power for the utilities, they didn't control the

price the utilities would have to pay. I use the analogy that it would be sort of like going to England where they decided that they were going to drive on the right side of the road like everybody else and on January we're going to do it for the trucks then in February if that works, we'll change -- we'll do the cars too. That's kind of what started the crisis, but it was compounded for our industry by the fact that there was some opportunistic pricing ultimately found on the part of some providers. But the deregulation model, we don't think is dead. We do thing that there's still opportunities for deregulation, which will help drive prices down, but that's a much bigger discussion, which I would love to have at some point. But, yes, California didn't work out, but what California did prove was that if the price gets high enough, people will conserve. People in California did start conserving. And governments around the world have been trying to figure out how to make people conserve; you know, invest in installation, that kind of stuff. It's really a price issue. You know, LIPA tries very hard, they put a lot of money into those programs and so do we. We work hard at it, but it's really a price item.

MR. DEJESU:

Most of the studies, Bill, have shown that unless you reach a certain price point, lots of people will say, well why am I going through the aggravation of shifting, now I'm going to get another bill and I have to deal with another company. Unless the price is significant enough, and we've seen numbers like as high as 15% different, which really -- I don't think any provider has been able to achieve, people say, you know what? The buck of people say, I'm going to stay where I am until it's favorable enough for me from a price perspective to change horses. I know what I have versus -- unless I'm going to save 15% or more, I'll probably going to stay where I am. And that's what we found in terms of our marketing service.

MR. MANNING:

And we just can't get there.

CHAIRMAN ALDEN:

Any other questions from the committee? I want to thank you very much for coming down. And I hope that, you know, you will take us up when we invite you down again, because you did mention you would be happy to come back. There's a number of issues, you know, I'm looking forward to discussing with you as soon as you have that full report.

MR. MANNING:

We'll certainly be sending you a copy of the summary report. We'll send you a disk that has the entire report. And if you get through it, then you'll probably get there before I do.

CHAIRMAN ALDEN:

I want to join Legislator Carpenter and Legislator Lindsay in saying that my office has had, you know, like wonderful relations with your office. Anything that we've send to as far as constituent and community affairs and community concerns, you have gone way above and beyond trying to help us out. So I want to extend my appreciation, and I'm sure that Legislator Nowick would want to jump here in too.

27

LEG. NOWICK:

It's one-upsmanship, because we don't get any complaints.

MR. MANNING:

That's better.

CHAIRMAN ALDEN:

Thanks for coming down. We actually have a very light agenda. Before I forget it though, I just want to put on the record that Legislative Counsel Paul Sabatino has an excused absence. He actually had back surgery, so he's home recuperating. So we wish him a speedy recovery.

TABLED RESOLUTION

(P) 1242-2003. Adopting Local Law No. -- 2003, a Local Law to toughen and graduate fines for item pricing violations within Suffolk County.
(ALDEN)

CHAIRMAN ALDEN:

We have tabled Resolution 1242. I actually rewrote this, and it's some place either being refiled or it's been refiled. So I'm going to

make a motion to table, seconded by Legislator Carpenter. All in favor? Opposed? That's stands TABLED. (VOTE: 4-0-0-0)

Unless anybody else has any other matters to come before the committee. Seeing none, we stand adjourned. Thank you very much

(*THE MEETING WAS ADJOURNED AT 10:55 A. M.*)

{ } DENOTES BEING SPELLED PHONETICALLY